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THE
EARLY HISTORY OF CANADIAN BANKING

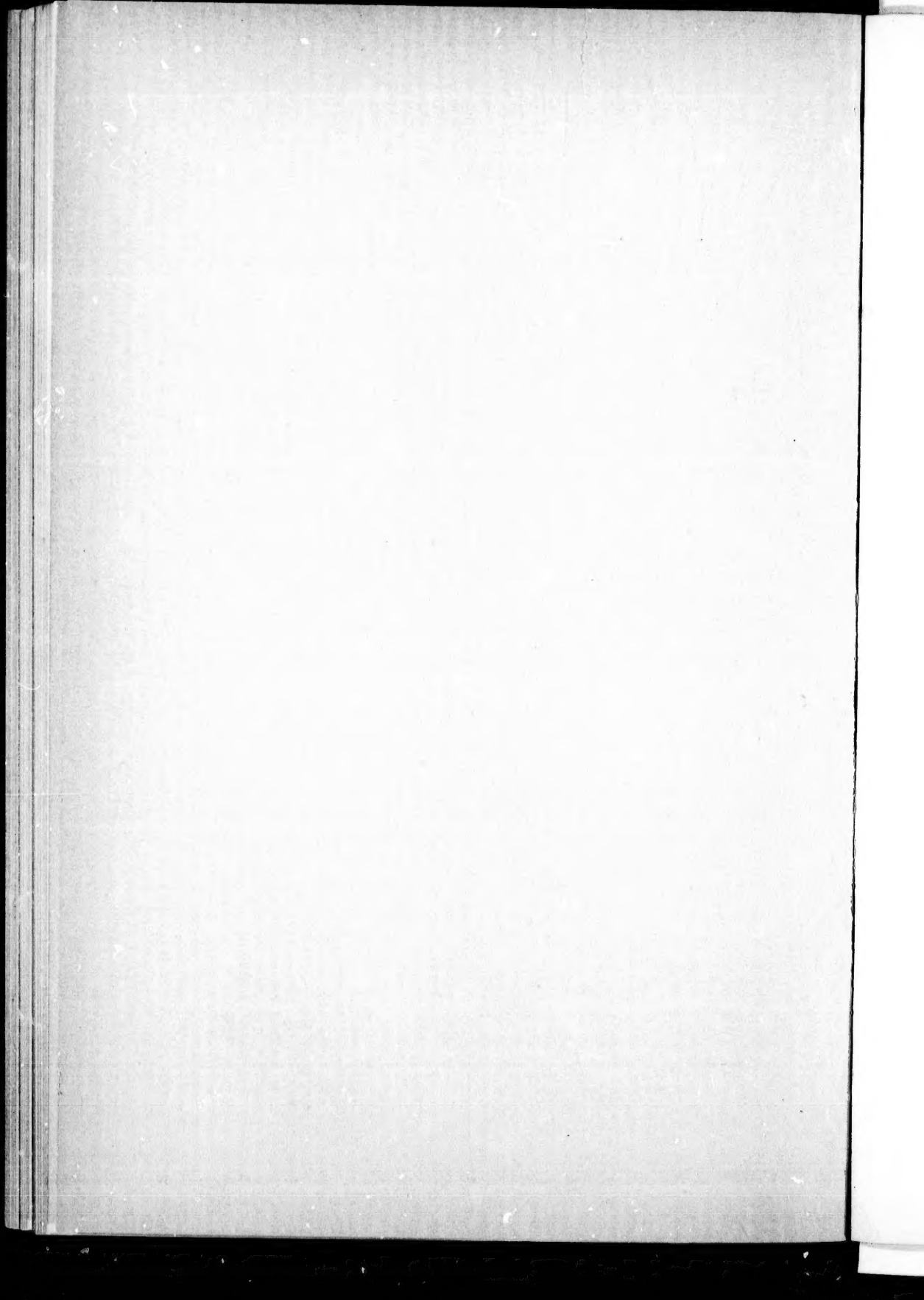
THE FIRST BANKS IN LOWER CANADA.

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IV

THE FIRST BANKS IN LOWER CANADA

WE have already observed that just before the outbreak of the war of 1812, Canada was suffering from the lack of a circulating medium, and that attempts were being made to establish banks in both provinces, with the expectation of relieving the stringency. The real difficulty, however, was a more serious one than the mere lack of currency.

The French Canadians, from their past experience, had acquired the capacity to live a very frugal and self-contained life. They did not, in proportion to their numbers, furnish a great deal for export, but they required even less in imports, and, though their trade was expanding under British rule, yet, as a body, they were but slightly affected by the commercial uncertainties of the Napoleonic era. The English element, around Montreal and in Upper Canada, were much more enterprising, though, perhaps, not more industrious than the French, but, as a class, they were very far from being so self-dependent. Most of them had been settled by the government on an artificial basis. As public aid was gradually withdrawn, and they were left to depend upon their own efforts, they found it difficult to adjust themselves to the new circumstances, especially under the fluctuating condition of values during the few years preceding 1812. The time had arrived, as Cartwright foretold, when, in the export of their produce, the disadvantages of their inland situation were operating in their full force, and much of the return was absorbed in the cost of transportation and exchange. In addition to these ordinary difficulties, there were many changes and uncertainties in the commerce and carrying trade of Canada, owing to the English orders-in-council, the retaliatory decrees of Napoleon, and the non-intercourse Act of the United States. Marine insurance was also very high. To

crown all, the seasons in Europe were very irregular, with corresponding uncertainty in the prices of provisions. Owing to their remoteness, the Canadians were prevented, on the one hand, from avoiding a ruinously low market, or on the other, from taking advantage of an unusually high one. The difficulty in making price adjustments between income and outlay may be indicated from the fact, taken from the Cartwright letters, that returns for flour and potash sent to England in 1810 and 1811, were being received in 1813.

Another feature of the situation worthy of note, was the fact that, while the country was being drained of specie, bills of exchange on England continued to steadily decline. This was naturally attributed to the scarcity of a circulating medium. Why, then, it might be asked, were not bills of exchange exported instead of specie? For the reason, already indicated, that the exports went to England, while the imports came largely from the United States in small quantities not payable in bills of exchange. This indicates that the greatest service which a banking institution could have rendered to the country at that time would have been to undertake a more economic adjustment of the country's foreign exchanges. That it would have been a very profitable undertaking, if conducted upon a sufficiently large scale, is evident from a comparison of the prices of bills in the American and Canadian markets. When ultimately established the banks found the exchange business to be more profitable than any other, and through their action the exchanges were brought to a more stable equilibrium, although the banks were severely criticized for their influence by those who required cheap bills.

While, then, the apparent and growing difficulty of the country before the war, was a scarcity of the circulating medium, the real difficulties were uncertainty in the markets for exports with no prompt knowledge of their changes, cost and delay in transportation and severe loss in effecting exchanges owing to the lack of any special organs for properly understanding and effecting them.

Having thus summarized the situation, we are perhaps better able to understand the nature and effects of the army bills, which began to be issued in 1812. It is not necessary to

our present purpose to give any special account of the mechanism and working of the army bill system. However interesting in itself, it had no special connection with the development of Canadian currency and banking. The system was in essence, if not in name, simply a mechanism enabling the British government to carry on the war without sending money to the country, by issuing orders which were chiefly to be paid in British goods, any surplus to be paid in specie to be sent when convenient, or as occasion required. Had there been sufficient available specie in the country, the usual method of selling bills of exchange on London would have been adopted; but there being so little available money the bills were certain to be sacrificed. It was therefore proposed to issue a form of government paper money bearing interest on all bills of twenty-five dollars and upwards; the principal to be paid by the home government and the interest by the Canadian government. They were made convertible on demand into bills of exchange on England, the smaller bills bearing no interest, being payable on demand in specie.

While the mechanism of the army bill office was a temporary and isolated fact, the circulation of the bills produced a permanent effect upon Canadian currency and exchange, especially through their influence on the ideas of the people as to the capacities of paper money.

The army bills were first issued in Lower Canada in July, 1812. The French-Canadian populace were for a time very suspicious of them, always preferring metallic money, often refusing any other, and when taken the bills were converted into specie as soon as possible. As usual, a good deal of the latter went into their private hoards. Governor Prevost reporting to Bathurst, March 10th, 1814, complains of the difficulties in which he is placed for want of specie: "The paper currency has as yet proved itself an indifferent substitute to bullion, in consequence of the inveterate prejudices against it in the minds of the Canadians, and the frequent attempts made by the enemy to imitate it."

Among the English section of Lower Canada and in the Upper Province the bills circulated very freely.

Inasmuch as the issue of the army bills was followed by a

period of increasing prosperity, the people naturally attributed it to the supply of a circulating medium, and were confirmed in their opinion that what the country had been suffering from was simply lack of money. Had the Canadian government issued paper money in a similar manner, there would have been afforded just as great a supply of circulating medium, but not being available for purchase of imports, it must have rapidly depreciated, as neither goods nor specie could be obtained for it. To supply a circulating medium was really the least of the functions of the army bills, and a mere incidental one. They were mainly instruments of an enormous positive increase to the wealth of the country and the possibilities for consumption. Their over-issue was hardly possible.

As a matter of fact, the war proved a veritable godsend to the people of Canada. A few of the militia were killed, and some of those in the track of the invading enemy suffered loss of property, but in most cases this was afterwards more than made good. People generally, however, enjoyed an era of prosperity unknown since the similar conditions of the revolutionary war, and they were now in a better position to appreciate it. French Canadians replenished and added to their hoards, the merchants gathered in their large outstanding debts, and greatly profited by the new trade. The settlers were offered war prices for more provisions than they could furnish. After the first alarm was over, the greater part of the country engaged in making money and enjoying life. The long and difficult system of transportation from Kingston to Montreal, which it was expected the enemy would at once close, remained open, much to the joy and surprise of the people, during the greater part of the period. Little passed down the river save bills of exchange, army bills and latterly specie, but everything came up from ships of war for the lakes to many forms of luxury hitherto unknown in the woods of Canada.

In consequence of all this an important change came over the economic life and habits of the people of Canada, except the rural French element. The system of barter was broken up, as also that close interdependence of the settlers which had prevailed up to this time. Everywhere the more flexible cash nexus was being introduced. People became accustomed to the

use of paper money, and not recognizing the radical difference between the army bills and bank notes, when the bills were withdrawn and banks were organized, they experienced no great difficulty in circulating their notes among the English element at least. Fortunately, before they had gone very far, experience served to modify the erroneous ideas under which the banks were established, and the country was saved from certain disaster.

Some of the peculiar conditions which existed under the army bill issue are worthy of note, on account of the impressions which they left upon the country as to the virtues of a paper currency. It was confidently expected by the merchants who had bills of exchange to sell, that when the army bills were in circulation, the currency of the country being increased, there would be a considerable rise in the value of the bills, the previous low price being attributed to the scarcity of currency. The army bills, however, were themselves convertible into bills of exchange on England, and hence were not to any great extent available for the purchase of bills from other sources. It is true that bills drawn against exports were greatly diminished, practically stopped altogether from the upper province, but bills for pensions, salaries, and the procuring of specie for situations in which army bills would not answer, continued to increase. Intercourse with the United States being nominally shut off, outlet there was discouraged. As a consequence, instead of bills of exchange rising in value with the increase of a circulating medium, they continued to decline. In July, 1814, Mr. Cartwright makes special reference to the very low rate of exchange, and mentions the fact that he has purchased a sterling bill of £61 2s. 2d. for £55 currency. This should have brought about £75 currency if there had been an equilibrium of exchange. Had the army bills been a provincial issue the very opposite would have been the result.

It is difficult to say how low the bills of exchange might have gone, had not the insulation between Canada and the United States given way under the pressure of self interest. I have referred to the period of unusual prosperity enjoyed by the United States in its neutral position during the long term of the Revolutionary and Napoleonic wars. When, however, the English ships blockaded the American coast and largely shut off

their bulky export trade, they were compelled to meet their foreign obligations in specie and bills on Europe. Bills, being safer, rose to a premium just when in Canada they were sinking to a low discount. There was therefore a very unusual profit in selling Canadian bills in the United States. This traffic, once opened, was carried on through many different channels, and a large quantity of specie was introduced into Canada in this manner. The American side of the story is given by Mr. Albert Gallatin, a distinguished secretary of the United States Treasury, in a work entitled, "Considerations on the Currency and Banking System of the United States": Phila., 1831. The Canadian side is taken from letters and accounts of the time, showing that even during the period of the greatest expansion of the army bills, in 1814, large amounts of specie were in circulation in Canada.

That specie should have been most plentiful at the same time that the army bills were at their height is a circumstance which could not have occurred in the case of any large issue of government paper money, and is a further indication that the experience of Canada with these bills was entirely unusual and quite unsafe as a guide for future experiments in the issue of paper currency. Nevertheless, the experience with the army bills was very impressive, and paper money came to be regarded not merely as a circulating medium but as capital to develop the resources of the country.

The army bill act was still in full operation, the bills at the height of their circulation being about £1,500,000, and the issue of the war still unsettled when the next move was made for the establishing of a bank in Lower Canada. We find, from the journals of the Assembly, that on the 8th of February, 1815, a motion was introduced by Mr. Cuivillier, seconded by Mr. Taschereau, that on Monday next the house should resolve itself into a committee of the whole "to consider the expediency of establishing a bank in this Province." The matter, however, was postponed till February 24th, when it was taken up and discussed, but that is the last we hear of it. This indicates that the merchants of Canada did not wait for the withdrawal of the army bills before renewing the agitation for a bank. From this time on the question was a very live one.

At the next session of the Legislature on February 6th, there was presented, by Mr. Cuvillier, a petition of divers merchants and other inhabitants of the city of Montreal, setting forth that the commerce and agriculture of the provinces of Upper and Lower Canada have of late years considerably increased, and, now that the war is over, if cherished and stimulated, may be productive of most beneficial and permanent results to both Canada and the mother country. The lack of a circulating medium may impede this development, hence they consider it desirable that a bank should be established to aid the commercial and agriculture pursuits, and to furnish a circulating medium as a substitute for the precious metals, and to give that range and facility to commerce which can alone render it safe and lucrative. As Canada has attained to the position of requiring the establishment of a bank, they pray the legislature to grant them incorporation as a banking company.

The petition was referred to a committee of five, with power to send for persons and papers, and to report either by bill or otherwise. The report of the committee was handed in on the 8th of February, and is a very considerable and interesting document, giving, as it does, the ideas as to banking, and the capabilities of a paper money, which prevailed among even the best informed men in the country.

Mr. Woolsey, afterwards first president of the Quebec Bank, gave it as his opinion that the establishment of a bank in the province would greatly encourage its agriculture and commerce. Both these industries suffer from a continual drain of specie to the United States and the mother country, and from the want of a circulating medium to take the place of the precious metals.

Mr. Stewart also favored the bank, especially an incorporated bank; the present circulating medium is inadequate to the needs of the two provinces and the States in their immediate neighborhood. A bank would keep the trade up to its present level, and would afford the only means of causing it to increase.

Mr. Mure referred to the great increase in the commerce of the country, and though now checked by the peace and the consequent diminution of public expenditure, it will no doubt revive with growth of population, and greater attention to agriculture. Most of the specie in circulation is in silver, and is

both inconvenient and risky. He fears that the amount of currency will not long be sufficient for the commerce of the country, especially as the rate of exchange with the United States gives promise of turning so as to draw off specie from Canada. He thinks a bank would do much to supply the deficiency. The experience of the use of army bills in late years "has proved the great advantage of a paper medium on a solid basis, and given a confidence to the inhabitants of the country which in my opinion, will induce many of them to become shareholders in the bank, and make the interest in it become so general that it can hardly fail to succeed."

Mr. Lymburner, referring to the obvious benefits of banks, said that their note issue "by displacing an equal amount of the precious metals, creates a new capital, and in English countries where capital is the grand desideratum, . . . it may in this way give an incalculable strength to industry in all its branches. The experience of many commercial countries places this in a striking point of view." He refers to the prudence and skill required in the safe management of banking establishments, to guard against unwise advances and the over-issue of paper. To regulate the issue the notes should be made unconditionally payable in specie on demand. He thinks bank notes would now circulate freely in Canada, as the old prejudices against paper money have been weakened by the late army bill currency, and bank notes will be found to be much more convenient than gold and silver, and in every respect equal to them.

Mr. Symes said the notes would facilitate the transaction of business by giving a method of paying and receiving money with less trouble, and would permit persons to obtain advances without such sacrifices as before.

It was suggested by others that bank notes would facilitate the conveying of money between Montreal and Quebec, as also through other parts of the province.

Here we observe a general tendency to confuse capital and circulating medium, as well as a failure to observe that it is impossible to enlarge the sphere of redeemable paper money to take the place of specie which is leaving the country. When specie is being exported, either the bank must curtail its circulation or suspend the redemption of its notes.

Along with the report Mr. Cuvillier presented a bill to give effect to its recommendations. The bill was passed through the various preliminary stages without any trouble, and was referred to a committee of the whole house to be taken up on the 27th of February. But the very next day, the House having entered upon forbidden ground, in the assertion of its right to impeach the Judges Sewell and Monk, Sir Gordon Drummond suddenly dissolved the Legislature, declaring his intention to take the sense of the country. Thus the bank bill, along with several others, came to an untimely end. There seems no doubt that the bill would have passed the legislature had time permitted.

Early in the following session, a new legislature having been elected and Sir John Coape Sherbrooke having succeeded as Governor, Mr. Cuvillier once more presented his bank bill, on the 31st of January, 1817. Again it passed through the various stages, as the business of the house permitted. On February 5th, it was read a second time and referred to a committee, it being ordered that one hundred copies of the bill be printed for the use of members of the house. Possibly one or two of these may have survived, though I have not yet been able to discover any. This committee reported favorably and the bill got as far as a first discussion in committee of the whole house, when once more the Legislature was suddenly prorogued. Sherbrooke had reported to Bathurst on February 1st, that the new house was evidently intending to follow the course of the last one in taking up the impeachment of the judges, but he had succeeded in getting them to first take up urgent public business. When this was fairly well through, he adroitly prorogued the house, reporting to Bathurst that the discussion on the impeachment had been staved off for another session. Thus a second time the bank bill was snuffed out before any final settlement of it could be made, but without any indication that there was any regular opposition to it.

By this time the greater part of the army bills was redeemed, only some £59,000 remaining in circulation, and there was beginning to be a real need for an addition to the currency of the country. The merchants of Montreal, who had been chiefly interested in the attempts to get a bank charter, feeling, no doubt, that the sympathy of the business community was

with them, and that it would be a pity to lose another year with no more certainty of success, the political conflict still raging, decided to start the bank without a charter. Accordingly, on May 19th, 1817, the articles of association of the Bank of Montreal were adopted, and the corporation proceeded to organize. The articles of association were published in the *Montreal Herald*, May 22nd, but I have not been able to discover any issue of the paper for that period. The *Quebec Gazette*, of May 29th, copies the following item from the *Herald*: "In the first page of this paper the articles of the Montreal Bank Association are laid before the public. Such an establishment has always been a favorite with this journal, and we cannot but congratulate the community on the prospect of a wonderful change for the better in the agricultural and mercantile pursuits of this province. The articles of this most laudable association, so far as we are enabled to judge from practical experience in our younger years, and from much reading, are drawn up with great judgment and wisdom, and seem extremely well calculated for our local position. We forbear making any remarks on the subject for the present, further than that we wish the establishment the utmost success in all its bearings."

From contemporary references to the bank and its articles of association, as well as from other evidence, as pointed out in the first of this series, the articles of association were without doubt adapted from the bill of 1808, which was copied from the Act establishing the Bank of the United States. On the other hand, the articles of the Montreal Bank were accepted with very slight changes by each of the three other banks started the following year.

At this time the second Bank of the United States was in operation, having been organized in January, 1817. That the promoters of the Montreal Bank still looked to the United States for guidance is evident from the fact that one of its officers was sent to New York to study the system and methods of the Bank of the United States, and one, if not more, of its first officers was an American who had had experience in American banking. From the United States also came the first notes and plates for printing them. The bank was opened for organization and the receipt of instalments on the shares subscribed, in

August, 1817, but did not begin the regular business of banking before November. It appears that the bank depended largely for its supply of specie upon the hoards of the more wealthy French Canadians, which, as usual, had been industriously replenished during the prosperous period of the war. Some coaxing was required to induce them to part with the specie for Bank of Montreal stock, and the army bill experience was the best argument employed. As the *Montreal Herald* remarks in an editorial, in August, 1818, public opinion has undergone a very great change within the last four years. Formerly banks were spoken of with contempt, but now the Bank of Montreal has been firmly established, and three others are in process of organization in Quebec, Montreal and Kingston. We find, however, that the country people still retained much of their prejudice, the result no longer of personal experience, but of historic conviction. It was, perhaps, as well for the banks of Lower Canada that this was so, for when their notes came into the hands of the French Canadians they steadily converted them into specie on the first opportunity, and thus tended to prevent the banks from over-issuing until they had gained experience and corrected their first large ideas about the capacities of paper money. This was an advantage which the first banks in Upper Canada did not enjoy, and for lack of which they suffered.

The first officers of the Bank of Montreal were, President, John Gray; Cashier, Robert Griffin; Accountant, H. Dupuy; first Teller, Mr. Stone, an American gentleman. The names of the Directors appointed the first year after organization were as follows:—John Gray, George Garden, John Forsyth, Horatio Gates, James Leslie, George Moffat, F. W. Ermatinger, David David, Austin Cuvillier, John McTavish, George Platt, Hiram Nichols, Charles Bancroft. These names show that the institution was identified with the best commercial interests of the country.

Although the bank was established and went into operation as a private corporation, its promoters did not give up the idea of obtaining for it a provincial charter. Accordingly, at the next session of the legislature, Mr. Cuvillier, on January the 23rd, 1818, once more presents a bill to incorporate certain persons therein mentioned under the name of the Montreal Bank.

After going through the usual process, and being slightly amended, first in general committee, and afterwards in the Legislative Council, it managed to reach the end of its parliamentary career before the proroguing of the legislature. When, however, the bills came up for the Governor's signature, the bank bill, together with the bills for incorporating fire insurance companies in Quebec and Montreal, were reserved for the expression of His Majesty's pleasure.

In the meantime, stimulated by the example of the Montreal Bank, two other banks in Lower Canada were being organized, the Quebec Bank, at Quebec, and the Bank of Canada, at Montreal.

The first effort to establish a bank in Lower Canada was the result of a joint movement on the part of the Quebec and Montreal merchants. But now that the Montreal people had established a bank of their own, the Quebec merchants resolved to do the same for their city. The first public intimation of the movement is the following advertisement which appeared in the *Quebec Gazette* of February 2nd, 1818: "Notice. The merchants, proprietors and others, concerned in the agriculture, trade, and general interests of the Province, are requested to attend a public meeting to be held at the Union Hotel, on Thursday next, the 5th inst., at twelve o'clock, to take into consideration the expediency of establishing a bank in this city, and name a committee to digest the articles of association thereof, etc."

The meeting was duly held, at which the following resolutions were passed:—"Resolved, that the establishment of a bank in the city of Quebec is an object of the highest importance to the community at large, should materially assist the agricultural interest of the district and afford great relief to the commerce of the country, so much depressed at this moment.

"Resolved, that the said establishment of a bank on principles of solid capital and integrity is immediately and urgently required by all classes of the citizens of Quebec; and more particularly so as the actual quantity of gold and silver is, as a circulating medium, inadequate to the wants of this district, and subject to perpetual fluctuations.

"Resolved, that a bank should be established in the city of Quebec to be entitled the Quebec Bank; and that at such

future period as may be thought advisable, a memorial be presented to the legislature, praying that an act may be passed to incorporate the same.

" Resolved, that experience has proved that a bank may be established and operated, on principles of the most solid and perfect security, both to the individual stockholders and also to the public at large, without any charter of incorporation. That this meeting do approve of the schedule now submitted as the basis of a contract of mutual association, for the establishment of a bank in this city "

These resolutions were referred to a committee, which was requested to consider the provisional articles submitted, and to draw up final articles to be submitted at the next meeting to be held on the 16th inst.

At the meeting on the 16th of February the report of the committee on the articles of association was received, and the articles ordered to be printed for the information of the public. Amendments and suggestions were to be received till March 17th, when a meeting would be held to finally ratify them.

In the meantime, as the legislature was in session, those promoting the bank resolved to apply for a charter. Accordingly a bill was introduced on February 27th, which got as far as being read the second time and referred to a committee of the whole house on March 19th. However, without waiting for a decision on their bill, the meeting, called for the 17th of March, ratified the articles of association, and next day the books were opened to receive subscriptions to the stock. Thus the failure to get their bill through the house before the close of the session, which was probably expected, did not prevent the progress of the bank. Delay, however, came from another quarter.

It appears that in the succeeding few months some efforts were made to secure the amalgamation of the Quebec enterprise with the Montreal Bank, but the negotiations failed, and in the *Gazette* of July 9th, we find the following item : — " At a meeting of the merchants and others interested in the establishment of the bank, held at the Exchange yesterday, we understand it was resolved to establish a bank in this city, independent of any other establishment. A branch of the Montreal bank, we find, is also to be opened in this city."

Up to the end of July only one-third of the stock of the Quebec Bank had been subscribed for, and the remaining two thousand shares were again offered to the public on August 1st. By the 24th of August other two hundred shares had been taken up, and it was resolved to call a meeting for the 17th of September, at the Exchange coffee house, to proceed to the election of directors. At that meeting the following gentlemen were elected directors :—John M. Woolsey, Philip A. De Gaspé, James McCallum, sr., Benjamin Tremain, John Jones, jr., W. G. Sheppard, Charles Smith, Thomas White, Louis Massue, John Goudie, Jean Langevin, E. C. Lagueux, Henry Black. The directors elected J. W. Woolsey as president, and Thomas White as vice-president. Mr. Noah Freer was appointed the first cashier. The first instalment on the stock was called for on October the 6th, and the bank was in operation by the end of October, as would appear from the following :—"Quebec Bank. Director for the present week, John Jones, jr., Esq. Days of discount, Monday and Thursday. Notes offered for discount should be inclosed to the cashier and given in before the day of discount. Hours for public business at the bank, from 10 a.m. to 3 p.m. Noah Freer, Cashier.

"No. 5 Sault-au-Matelot St. 28th October, 1818."

The other bank, known as the Bank of Canada, was a direct rival to the Bank of Montreal, and was established in the city of Montreal by a number of speculative Americans, attracted to the country by the prosperity of the war period. They, too, adopted the articles of association of the Montreal Bank. There were twenty-five of these articles, the whole of which were adopted by the Quebec Bank, but the fifth and ninth articles were dropped by the Bank of Canada for obvious reasons. The fifth article imposed limitations on the number of shares for which a single individual might subscribe at any given stage in the organization of the bank. The ninth article limited the choice of directors to persons who were either natural born, or naturalized subjects of His Majesty, or had resided seven years in the province. There were a few other minor changes. The articles of association were adopted on May 7th, 1818, and the book for stock subscriptions was opened at the same time, at the office of James McDonall. The stock

was taken up by a limited number of persons, and the stockholders were summoned to meet on May the 27th, at the City Tavern, to elect directors. On June 6th the bank advertised for a cashier, and Robert Armour received the appointment. On July 18th, a call was made for the first instalment of fifteen per cent. on the stock subscribed, to be paid on or before the 24th of August. On the 22nd of August the directors announced that the bank would commence business on Tuesday the 25th. The Bank of Canada was the most ambitious bank of the three, starting with a capital stock of £300,000, the Montreal bank having £250,000, and the Quebec Bank £150,000. From the nature of it the Bank of Canada was not very firmly rooted in the stable financial interests of the province, depending apparently on the exchange business with the United States. It soon found it expedient to reduce its stock to £200,000, and, although apparently honestly managed, when the severe depression of the early twenties was experienced, it found it necessary to wind up its affairs, in which it was assisted by the Bank of Montreal, which took over its business. Considerable loss was sustained by the stockholders, but the customers of the bank did not suffer.

As we have seen, the bill to incorporate the Bank of Montreal, which passed in 1818, was reserved, while the Quebec Bank bill did not reach any conclusion. When the next session of the legislature opened in January, 1819, it was not known whether the Montreal Bank bill had been sanctioned or not, hence the Montreal people made no further effort at that session. The Quebec Bank, however, once more applied for a charter. Their petition, presented by Mr. Vanfelson, sets forth the need for a bank, long felt by the business men of the city. The circumstances attending the establishment of the bank, in 1818, are given; mention is made of the fact that the whole of the stock, £150,000, has now been subscribed. But, while the bank is successfully in operation, its full benefits cannot be realized, and great inconvenience in the conduct of its business must be experienced unless it obtains legal incorporation. Hence, they apply for an act of incorporation on terms as nearly as possible in accordance with their articles of association. The petition was referred to a committee, who reported with a bill which

successfully passed through all the stages of the lower house, and was sent up to the Legislative Council, from which it never emerged. Doubtless the Council was waiting to see what treatment would be accorded the Montreal bill, before passing any others.

Whether or not anything was ever heard of the reserved bill of 1818 to incorporate the Montreal Bank, I have not been able to discover. It would appear to have been wholly overlooked or forgotten. At any rate, the Montreal people gave it up for lost, and at the next session of the legislature, extending from 14th December, 1820, to 17th March, 1821, all three banks presented petitions setting forth their claims, and praying for incorporation. The three bills successfully passed both houses, but were all reserved for the expression of the King's pleasure. More than a year after being passed they seem to have been brought to the notice of the Home Government, doubtless by the agent of the province in London. On May 18th, 1822, the royal assent was given to the bill to incorporate the Bank of Montreal, and it was proclaimed in Canada on July 22nd in the same year. Not till September 16th were the bills to incorporate the Quebec Bank and the Bank of Canada assented to, and it was the last day of November, 1822, before their proclamation in Canada. Thus did the first banks in Lower Canada pass through the initial stages of their career.

The banks did not escape without criticism. Much of it was due to short-sighted self-interest; a few, however, judged them by higher standards. The first considerable public criticism with which I have met, appears in the shape of a pamphlet published in Quebec in 1820, and entitled, "An inquiry into the origin and present system of Colonial banks and their dangerous effects; with a proposal for a national bank." This is, of course, a criticism of the banks in their unchartered condition. The writer is evidently a man of intelligence, and well acquainted with the facts. He first points out that in their bases and methods, the banks in Canada are wholly unlike those in Britain, where they would be considered quite contrary to law. He outlines the condition of the country before, during, and after the war. War, he says, which in most countries brings with it poverty and devastation, brought prosperity to

Canada, and, by flooding the country with money, changed the character of its business. After the peace, at which few people in Canada rejoiced, sufficient retrenchment did not follow, the balance of trade changed, and specie began to disappear. Efforts were made to sustain the prosperity by artificial means. Capital accumulated during the war period was freely invested. So many people had been diverted from agriculture by opportunities for profitable government employment, that after the peace the cities and towns largely depended upon the United States for the necessities of life, for which, too, specie was being exported.

Not perceiving the true cause of the growing difficulties, the merchants and others sought to establish a bank. The apparent success attending the first bank has given encouragement to others, and there is no telling where it will end. But the success of the banks, so far, is a measure, not of the prosperity, but of the financial difficulties of the country. He refers to the unbounded confidence which the tradesmen have in the banks, and the ready currency which they give to their notes. So far, he admits, the banks have been able to combine private advantage with public confidence, but he fears for the future. He criticises, particularly, the limited liability clause in the articles of association, the essential part of which, as expressed in the articles of each of the banks, was as follows:—"It is hereby expressly and explicitly declared to be the object and intention of the persons who associate themselves under the style "or firm of... .. that the joint stock or property of the said "company (exclusive of dividends to be made in the manner "hereinafter mentioned) shall alone be responsible for the debts "and engagements of the said company." He points out that as these institutions are private corporations, no amount of advertising of their limited liability can free them from the unlimited obligations resting upon private persons. Confidence in the honor and prudence of the directors may do much to lessen distress, but it cannot do away with the danger. He then proceeds to state some very sound principles with reference to credit and banking. He doubts whether the whole of Canada can support more than one bank; and at that time there certainly did seem to be danger of overdoing the business in Lower

Canada, while Nova Scotia and Upper Canada were going into banking at the same period. After pointing out various liabilities to loss and collapse, he urges that the House of Assembly should appoint a committee to investigate the condition of the banks and define the responsibility of the directors and stockholders. His constructive idea is that the issue of paper money should be confined to government, and that a national bank should be established by the government, the profits from which to be applied in improving navigation. His constructive scheme, however, is not so good as his criticism of the loose and mistaken ideas on the subject of paper money which were current in the business community. The events of a few years later amply justified his warning. Other criticisms of less note appeared from time to time. At length, on the 30th of December, 1823, the matter was brought up in the legislature of Lower Canada, and a committee was appointed to enquire, "If any, and what inconveniences have resulted from the establishment of banks in this Province." On the 28th February, 1824, the report of this committee was presented, and though it formulated nothing, yet the evidence presented is full of interesting detail. Among those examined were the president and cashier of the Quebec branch of the Bank of Montreal, the cashier of the Quebec Bank, the agent of the Canada Bank in Quebec, and several merchants of Quebec and Montreal.

It appears that there was very considerable jealousy as to the political influence, and consequent opportunities for profit, enjoyed by the Bank of Montreal. It was favored with the custody of a large amount of government money, upon which cheques were drawn, and these were commonly paid out in the notes of the bank. The government patronage, which the Bank of Montreal enjoyed both in Lower and Upper Canada, was indeed an immense advantage to any bank in those days, owing to the command of specie which it thus obtained. The importing merchants seem to have been convinced that the banks were chiefly responsible for the high price of exchange. The larger quantity of bills on Britain, and especially those of short date, were issued by the Commissariat Department, from which the banks were supposed to purchase them, and afterwards sell them at a higher rate to the merchants. When we consider

that within ten years bills of exchange on England had passed from a very considerable discount to a premium of eight or ten per cent., and that within that time the banks had developed their business, we are able to understand, if not to appreciate, the feelings of the merchants. The officers of the Montreal Bank were able to deny that they bought bills from the Commissary-General which they afterwards sold to the merchants at a higher rate, because the bank always sold its own bills of exchange. However, the banks were not to blame for the condition of exchange; on the contrary, they were able to claim, with reason, that the operations of the banks greatly steadied the rate of exchange, and were highly beneficial to the country in general.

Favoritism in the discounting of bills was also charged against the banks. Whether the grievance was a very real one or not in the cases mentioned, yet it is apparent from the general evidence and from the partial admissions of the bank officers, that the public were not treated with perfect impartiality in the matter of loans. The interests of the banks and of the merchants who held their stocks were still too closely connected to admit of a perfect separation of their interests. The rivalry between the business men of Quebec and Montreal crops up very strongly in this evidence. The deposits received at the Quebec branch of the Bank of Montreal were said to be only partially loaned in Quebec, the rest being sent to Montreal for the use of the friends of the bank there, and to the advantage of Montreal generally. The Quebec Bank, it appears, did not deal in foreign exchanges, but it was a considerable part of the business of the others. The Bank of Canada no doubt had chiefly in view, at the time of its establishment, the American exchange business, which was then very brisk, but which fell off in the early twenties owing to the financial distress in that country. This may no doubt explain in large measure the decline in the business of the Bank of Canada. The Bank of Montreal, however, was the great exchange bank even in those days. It soon established an agent at New York, and from the time of organization of exchanges with the United States after the peace the Canadian rates of exchange were determined by New York. Any legal prohibition of the banks from dealing in

exchanges, as was advocated by many merchants, would not have affected the price of exchange, but would simply have introduced agents of American banks as purchasers of the Commissary-General's bills.

As I have said, the evidence taken afforded no specific basis for report, but it shed a good deal of light upon some points and cleared the political and economic atmosphere of much misconception with reference to the business of the banks.

The Bank of Montreal and the Bank of Canada, which were both doing business at Quebec, had also established agencies at Kingston, but I shall consider these in connection with the first actually established banks in Upper Canada, in the fifth and concluding paper.

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